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DIA MET

MINERALS LTD.

annual report

1995 - 1996

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#49

Report to Shareholders

On behalf of the Board of Directors I am pleased to present the Annual Report, together with the financial statements for the fiscal year ending January 31, 1996.

There were a number of significant and positive developments in the NWT diamond project. Of particular note was the preparation and submission of the Environmental Impact Study to the Environmental Review Panel. This was followed by public hearings held in both Yellowknife and the surrounding villages. The process was completed on February 23, 1996 and the Panel has 120 days to prepare their recommendation for presentation to the Federal Cabinet by late June 1996. To date our joint venture partner, BHP Diamonds Inc., has spent in excess of Cdn. $160,000,000 on the project. If Federal approval is received, with permits issued and a final positive feasibility study tabled, the construction of the mine could commence by early fall of 1996 with production of diamonds anticipated in 1998.

The manageable environmental impacts and benefits to the NWT and Canada were stressed during the hearings. The project benefits, as shown below, emphasize the positive effect to the economy of Canada and in particular, the NWT.

NWT DIAMONDS PROJECT: PROJECT BENEFITS TO THE NWT AND CANADA

	NWT DIRECT	NWT TOTAL	CANADA DIRECT	CANADA TOTAL
Person years of employment	14,400	30,180	22,020	69,840
Wages and Benefits ($000,000)	$1,010	$1,740	$1,670	$3,600
GDP ($000,000)	$1,495	$2,480	$3,460	$6,230

Yellowknife will be the point of hire with wide ranging training programs offered and a commitment fulfilled to hire a minimum of 20-25% of the employees from the neighbouring aboriginal villages. Details of the project, together with a chronological review will be found in this report.

The Company carried out an extensive exploration program in other areas during the year. A major sampling program was completed in northern and eastern Europe. Further work is contemplated for this year to establish targets for additional exploration.

Approximately $400,000 was expended on the Albert River gold tungsten property in eastern British Columbia. Dia Met had previously entered into an agreement with Goldtex Resources Ltd., whereby they acquired a 49% interest in the property by advancing $1,000,000 for exploration. Additional work is planned for this summer with Dia Met as operator.

In early 1996, Dia Met and Goldtex entered into an agreement to conduct mineral exploration in the state of Nevada. Goldtex can earn a 49% interest by expending $4,000,000 on the various properties. To date, 150 targets have been selected for exploration with Dia Met the operator. An extensive program has been finalized for 1996 with budgeted expenditures in excess of $1,000,000.

A very modest program was completed on the Dia Met/Cameco Alberta joint venture. A large land reduction took place with the necessary assessment work applied to the balance of the claims.

On July 14, 1995, Dia Met was called for trading on the American Stock Exchange. To date, the trading volume has been somewhat disappointing. Considerable work must be done to familiarize the American investor with diamond mining, the NWT project and in particular Dia Met Minerals.

Dia Met's subsidiary, Northern Air Support Ltd. showed improved operating results in fiscal 1996. The maintenance hangar was completed, outside maintenance work accepted and the helicopter has been working full time on an overseas project. In addition, we have leased two machines to fulfill the contract requirements for the NWT diamond project. The machines and facilities are being fully utilized and the subsidiary is expected to contribute to Dia Met's fiscal 1997 income.

Subsequent to year end, we announced the settlement of outstanding litigation involving a claim by Sand River Resources (assigned by Equity Investments to Sand River) for 3,750,000 Dia Met shares. Subject to final regulatory approval, the action will be settled with the issuance to Sand River of 350,000 Class A shares. The decision to have the action dismissed on a nuisance settlement basis without costs was based on projected future legal costs, the substantial time involved for Company officers and directors in the continuing litigation and the recognition that success in any case was not absolutely assured. The decision was made by the independent directors, who firmly believed that the defendant directors acted in good faith and in the best interests of the Company when they caused Norm's Manufacturing and Geoservices Ltd. in early 1990 to purchase and option 1,500,000 (now 3,750,00) shares from the Equity Group of Companies. It is expected that a substantial portion of the legal costs will be reimbursed under the Company's Directors and Officers Insurance Policy.

The Dia Met Board of Directors has prepared and adopted a "Statement of Corporate Governance Practices". The statement together with the composition of the Audit, Compensation, Corporate Governance and Environmental and Safety Committees is set out in full in this report.

We would like to welcome Peter Atkinson to our Board of Directors. Mr. Atkinson has been actively involved with Dia Met in his position as senior counsel in the Sand River litigation. In February 1996, he joined Hollinger Inc. as Vice President, General Counsel and Director. He was formally senior partner with Aird & Berlis, a prominent Toronto Law firm.

The past year will be remembered as one which brought Dia Met/BHP much closer to the realization of the goal to construct Canada's first diamond mine. The progress would not have been possible without the dedication, hard work and loyalty of our employees. This year will be pivotal and we are very hopeful that with the support of government and a positive feasibility study, construction will be well advanced by year-end.

On behalf of the Board of Directors,

James E. Eccott
President
May 3, 1996

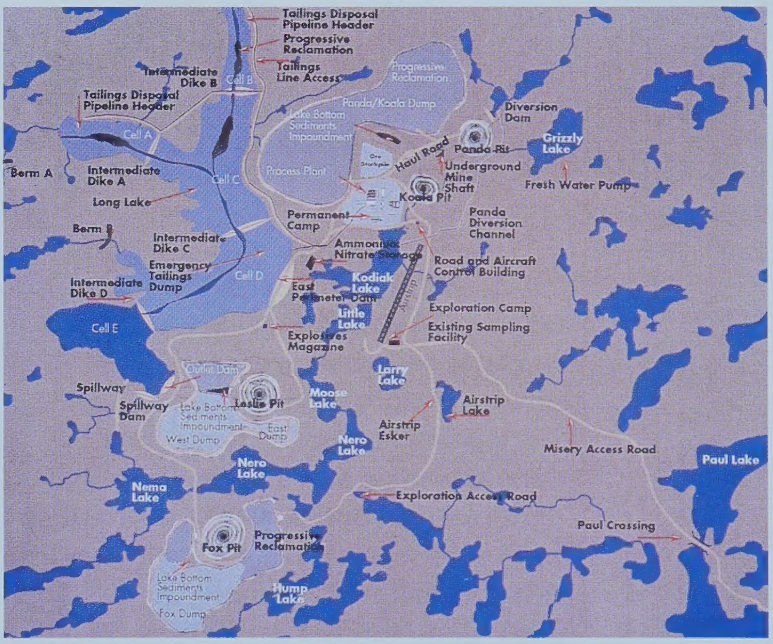
More than 50 million acres have been staked for diamonds in the NWT

Dia Met Minerals Ltd. holds a 29% interest in a joint venture with BHP Minerals Canada Ltd. located in the Lac de Gras area of the Northwest Territories. The Dia Met/BHP NWT Diamond Project is at final feasibility stage. The joint venture submitted an Environmental Impact Statement (EIS) on July 24, 1995 covering the development of five kimberlite pipes and detailing a comprehensive and integrated Environmental Management Plan for the project. Public hearings were completed on February 23, 1996. The Dia Met/BHP joint venture anticipates obtaining relevant approvals and permitting in time to allow construction to begin in the fall of 1996 and allowing initial production in early 1998 from North America's first major diamond mine.

DIA MET PIONEERED THE SEARCH FOR DIAMONDS IN THE CANADIAN ARCTIC

Dia Met Minerals Ltd. was founded in 1983 by its current chairman, Charles E. Fipke. The Company provided necessary funding to carry out a systematic sampling program for diamond indicator minerals in Canada's Northwest Territories. Early exploration on a very limited budget relied on float planes and careful selection of sample sites.

Evaluation of the Mountain diatreme located in the MacKenzie Mountains, western NWT, was being conducted in 1981 as part of a joint venture program between Superior Minerals, Falconbridge and C.F. Mineral Research. As part of this evaluation, garnets and chromites were recovered from a series of samples collected in the vicinity of Blackwater Lake. By 1985, Dia Met Minerals Ltd. was funding the program and sampling had extended as far as 900 kilometers east of the original discovery.



Map showing proposed mine and infrastructure for NWT Diamond Project

Three highly anomalous heavy mineral samples were identified to the north of Lac de Gras, and of great significance was the lack of anomalous samples to the east of Lac de Gras area, which suggested that the source area had been located.

Dia Met Chairman Charles Fipke planning diamond reconnaissance program

Extensive higher density sampling was undertaken northeast and west of Lac de Gras, refining the extent of the anomalous glacial sediments. Dia Met began to acquire ground in 1989 and by August 31, 1990 approximately 450,000 acres were staked.

The discovery of high concentrations of diamond inclusion type minerals precipitated the September 1990 joint venture agreement with BHP Minerals Canada Ltd. for the exploration and development of the property. BHP committed to fund all exploration with a minimum expenditure of US $2 million per year through to mine feasibility in order to earn a 51% interest in the project.

A year later, in 1991, the Point Lake kimberlite pipe was drilled, some 600 kilometers east of the original indicator mineral sighting made by Fipke in 1981. A single drill hole produced 59 kilograms of core from which 81 diamonds were recovered. The announcement of diamonds in the Point Lake core sparked the largest mining claims rush in Canadian history.

From 1991 through 1995, the joint venture expended over US $120 million on exploration and development programs. Exploration drilling has confirmed the existence of 57 kimberlite pipes on the property. Reverse circulation drilling was used to obtain large samples (approximately 200 tonnes each) for 15 of the kimberlites. Of the 15, a proposed development plan is in place for the first five target pipes: Panda, Misery, Koala, Fox and Leslie, with a projected mine life of 20 to 25 years.

Koala Processing Plant, Lac de Gras

MILESTONE ACHIEVEMENTS

October 1984. Dia Met Minerals Ltd. was listed as a public company on the Vancouver Stock Exchange.

September 1989. Exploration efforts were intensified in the Northwest Territories diamond project. Significant highly anomalous heavy mineral samples were collected in the Lac de Gras region.

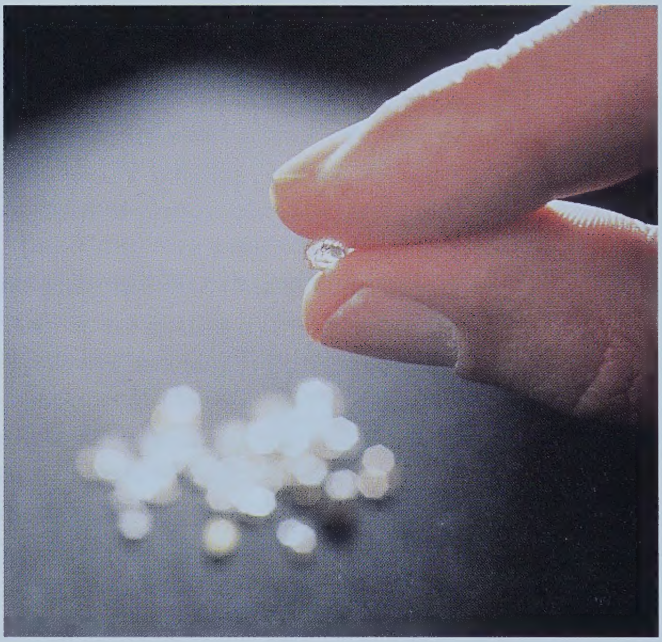
August 1990. Dia Met staked 450,000 acres north of Lac de Gras.

September 1990. The Blackwater Agreement was signed on September 5 between the "Blackwater Group" (consisting of Dia Met Minerals Ltd., Charles Fipke and Stewart Blusson) and Broken Hill Proprietary (BHP). The agreement called for BHP

to fund all exploration at a minimum of US $2 million per year through to mine feasibility, to earn a 51% interest. In addition, they agreed to finance mine construction costs up to US $500 million on behalf of the joint venture.

November 1991. Microdiamond results were announced for the Point Lake kimberlite precipitating the largest staking rush in Canadian mining history.

May 1992. The joint venture announced that more than 90 carats of diamonds were recovered from a 160 tonne bulk sample of Point Lake kimberlite. About one quarter of the diamonds were classified as gem quality.



Diamonds recovered in drilling program on the BHP/ Dia Met claims

September 1992. An additional nine kimberlites were identified by core drilling on the main claim block.

October 1992. Dia Met Minerals Ltd. was listed on the Toronto Stock Exchange.

December 1992. The joint venture announced microdiamond results for nine new kimberlites and revealed plans to bulk sample at least two of the newly discovered pipes.

June 1993. The preliminary results from the winter program of 1993 were released. More than 62 carats (31% gems) were recovered from approximately 50 tonnes of kimberlite at the Koala ("4") pipe.

September 1993. The joint venture announced the valuations of the diamonds recovered from the Fox, Leslie and Koala samples. The valuations ranged from US $81 at Leslie to US $112 per carat for the Koala sample. It was also announced that an additional 16 kimberlites had been located on the property bringing the total kimberlites found to date to 26. The extraordinary microdiamond results for Misery ("93J") were also reported.

December 1993. Construction of an on site facility linked by an Arctic corridor was completed. It included a fully weatherized 180 man camp, a 10 tonne per hour DMS (dense media separation) plant for processing bulk samples of kimberlite and a facility for storing large samples. A landing strip has also been constructed and can be utilized by Boeing 727 and Hawker Siddeley 748 aircraft as well as Hercules freighters. The joint venture also announced progress on the underground program at Fox and its intention to collect 3500 to 5000 tonne samples at Fox and Koala, two of the most promising pipes.

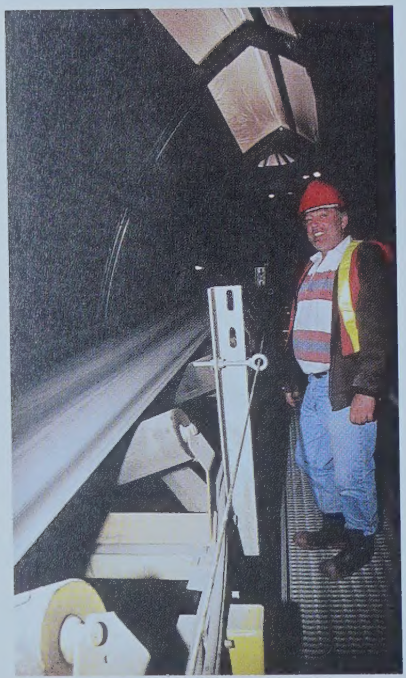
April 1994. Impressive results were announced for a new pipe ("Panda") where a total of 270 carats of diamonds of high quality were recovered from about 230 tonnes of kimberlite.

May 1994. BHP formally notified Dia Met of their intention to prepare a bankable feasibility study for the first diamond mine on joint venture property and were thus vested with a 51% interest in the project.

Koala camp with landing strip, Lac de Gras, NWT

July 1994. A progress report filed by the joint venture announced the diamond recovery results and valuations for the Koala, Panda, Misery and Falcon kimberlites. Overall US $ per tonne included $82 per tonne at Koala (average all samples), $142 per tonne at Misery (main pipe) and $150 per tonne at Panda.

December 1994. BHP, the project operator, provided the Canadian government with an updated Project Description for its Northwest Territories diamond project for use by the recently appointed Environmental Review Panel. The proposed development plan was enlarged from three diamondiferous pipes (Koala, Fox, Leslie) to five (Panda, Misery, Koala, Fox, Leslie). The potential mine life was consequently expanded to twenty five years.



A 10 tonne per hour processsing plant was constructed on site

The Canadian Minister of the Environment announced membership of the four person Environmental Review Panel on December 9, 1994. The panel has responsibility for the Environmental Assessment and Review Process (EARP), the highest level of environmental review in Canada. The joint venture also announced the discovery of an additional 13 new diamond bearing kimberlite pipes bringing the total to 39 confirmed pipes. The underground sample was completed for the Fox kimberlite with a total of 1,766 carats of diamonds recovered from 6,915 tonnes of kimberlite. A total of 2,557 carats were recovered from 2,835 tonnes of kimberlite for the Panda kimberlite.

February 1995. The completed diamond valuations were released for the Fox, Panda and Misery kimberlites and included US $126, US $132 and US $44 per carat, respectively.

May 1995. The final Environmental Impact Statement (EIS) guidelines were received from the Environmental Assessment Review Process panel.

June 1995. The joint venture released results from the winter 1995 program. The program objectives were to bulk sample in order to prove quality and grade evaluations of the Misery pipe, to obtain additional grade, diamond quality and geological information of the planned production pipes, and to obtain initial bulk

sample results on five additional diamond bearing pipes. The preliminary grade for Misery increased to 4.17 carats per tonne and the results from Koala, Panda and Fox enhanced or confirmed previously reported grades. The most promising result from the newly tested pipes was the Pigeon kimberlite which yielded 60 carats from a 154 tonne sample for an average grade of 0.39 carats per tonne.

July 1995. Dia Met Minerals Ltd. began trading on the American Stock Exchange. The Environmental Impact Statement (EIS) summary for the Dia Met/BHP diamond joint venture project and four supporting volumes were submitted to the Federal Environmental Review Panel on July 24, 1995. The EIS covers the development of five kimberlite pipes and details a comprehensive and integrated Environmental Management Plan for the project.

September 1995. Complete commercial evaluations were released by the joint venture for the Panda, Misery, Koala, Fox and Pigeon kimberlites. The average diamond values range from US $26 per carat at Misery to US $130 per carat for Panda diamonds. The 1995 summer program located an additional 18 pipes for a total of 57 known kimberlites on the joint venture ground.

The environment is protected during exploration

February 1996. The public hearings on Environmental Impact Statement were completed on February 23, 1996. The Environmental Assessment Review Process panel has 120 days to make recommendations to Federal Cabinet thereby completing the federal review process.

The Complete Bulk Sampling Results for the First Four Planned Production Pipes

PIPE NAME	TOTAL TONNES SAMPLED	TOTAL CARATS RECOVERED	SAMPLE GRADE CARATS/TONNE	AVG. VALUE US $ PER CARAT
Panda	3,402	3,224	0.95	$130
Misery	1,030	4,313	4.19	$ 26
Koala	1,550	1,465	0.95	$122
Fox	8,223	2,199	0.27	$125

Management Discussion and Analysis

The following discussion and analysis of the results of operations and the Company's financial position should be read in conjunction with the consolidated financial statements and related notes.

RESULTS OF OPERATIONS

For the fiscal year ended January 31, 1996, ("fiscal 1996") the Company earned revenue of $1,779,420 compared to $1,951,330 for the fiscal year ended January 31, 1995 ("fiscal 1995") and $946,195 for the fiscal year ended January 31, 1994 ("fiscal 1994"). Interest revenue increased from fiscal 1994 to fiscal 1995 due primarily to an increase in the average amount invested in interest bearing investments and was relatively consistent between fiscal 1995 and fiscal 1996 despite a decrease in the average amount invested. This was due largely to the amortization into interest income in fiscal 1996 of a portion of a previous write down of temporary investments to market. Revenue from aircraft operations was up each fiscal year due to increased outside charter of the helicopter as well as an increase in revenue from maintenance and repair services. There was no revenue from the diamond recovery plant operations in fiscal 1996 as the plant was idle for the entire year. The plant is highly specialized and the sources and timing of revenues can vary significantly.

Total expenses before the write offs of the cost of mineral properties abandoned and the settlement of litigation were $2,343,866 in fiscal 1996 compared to $2,457,041 in fiscal 1995 and $711,442 in fiscal 1994. Aircraft operations expenses increased each fiscal year reflecting the general increase in overall operations indicated by the increased revenues in each fiscal year. The diamond recovery plant operating costs for each fiscal year reflects the level of plant activity and revenues from the plant for the respective year. Depreciation was up for fiscal 1996 over fiscal 1995 and fiscal 1994 due primarily to additional depreciable assets being purchased toward the end of fiscal 1995 and in fiscal 1996. General and administrative expenses were up from fiscal 1994 to fiscal 1995. This increase resulted from a number of factors including higher legal fees related to outstanding lawsuits and increased salary costs from hiring more full time staff. General and administrative expenses were up slightly for fiscal 1996 over fiscal 1995. This was due primarily to salary costs increasing as a result of the addition of one staff and general salary increases for existing staff, premises costs increasing due to the acquisition of more office space to provide for anticipated short term growth in operations and more expenditures on investor relations. In addition, the listing of the Company's shares on the American Stock Exchange was followed by higher insurance premiums, as a result of increased risk.

There was no write down of temporary investments to market in fiscal 1996 or fiscal 1994 as there was in fiscal 1995 because the market values of temporary

investments at January 31, 1996 and January 31, 1994 were above their carrying value at those times. Temporary investments held by the Company are interest sensitive and the drop in interest rates in the latter part of fiscal 1996 had a positive impact on the market value of the temporary investments held by the Company.

The write offs of the cost of mineral properties abandoned were up significantly to $1,491,194 in fiscal 1996 from $48,707 in fiscal 1995 and nil in fiscal 1994 and were a significant contributor to the loss for fiscal 1996 of $2,061,109 up from a loss of $649,782 for fiscal 1995. The largest part of the fiscal 1996 write offs related to two Canadian exploration programs, one in eastern Canada ($930,090) and one in western Canada ($311,985) which were abandoned after exploration and test results did not support further work being done on these programs. Some other minor exploration programs were also abandoned in fiscal 1996.

Aircraft operations carried on through the 100% owned subsidiary, Northern Air Support Ltd., are expected to continue to expand through fiscal 1997 as significant helicopter services will be provided during the year to the NWT diamond project. The subsidiary recorded a loss for consolidation purposes of $139,295 in fiscal 1996 versus a loss of $191,192 in fiscal 1995, but with increased operations through fiscal 1997 is expected to be a positive contributor to consolidated net earnings in fiscal 1997.

The Company's diamond recovery plant is highly specialized and its outside use depends heavily on the extent of diamond exploration throughout North America. The plant was not used in fiscal 1996, but is expected to be used on a limited basis in fiscal 1997. The Company's investment in the plant is minimal.

The Company has not earned any income from its mining operations and does not anticipate that it will earn income from this source for at least two years. In respect of the NWT diamond project, the Company is currently waiting for the results of the feasibility study being conducted by BHP Diamonds Inc. and the approval of the project by the Federal Cabinet. If the results of the feasibility study are positive and Cabinet approval of the project is obtained, it is anticipated that the property will be put into production with mine construction commencing in calendar year 1996 and the Company earning income from the project in calendar year 1998.

LIQUIDITY AND CASH RESOURCES

At January 31, 1996, the Company's cash position was $6,888,748 which was a decrease in cash of $4,427,739 from January 31, 1995 and $5,780,679 from January 31, 1994. In all fiscal years, cash was generated from interest income and revenue from aircraft operations of the Company's subsidiary. Cash was also generated from

diamond recovery plant operations in fiscal years 1995 and 1994. A significant use of cash in fiscal 1996 over fiscal 1995 and fiscal 1994 was for expenditures on deferred exploration and development which amounted to $3,495,245 in fiscal 1996, $1,387,690 in fiscal 1995 and $446,274 in fiscal 1994. At January 31, 1996 the Company had working capital of $3,351,238 as compared to working capital of $7,183,325 as at January 31, 1995 (restated from the $11,250,325 previously reported as a result of the prior period adjustment referred to in note 12 to the financial statements).

The Company anticipates incurring exploration expenditures in fiscal 1997 in the area of $3,600,000 (excluding any exploration expenditures to be funded from cash restricted for exploration), expects legal and other professional fees related to ongoing litigation to be down substantially as a result of the settlement of the litigation referred to in note 12 to the financial statement, expects other costs to be in line with recent experience and expects overall revenues to be up slightly. If these circumstances prevail and if the Company receives regulatory approval for the issue of 350,000 Class A shares in the settlement of the litigation referred to in note 12 to the financial statements, the Company will not require additional working capital during the next 12 months.

If regulatory approval for the transaction referred to above is not received and the Company must settle the litigation through the payment of $4,000,000 as set out in the settlement agreement, the Company will require working capital over the next 12 months. It is likely any such working capital requirement would be provided out of the proceeds of shares issued under employee stock options or through a private placement.

It is not anticipated that the Company will have to advance Northern Air Support Ltd. any funds during fiscal 1997 for working capital purposes. There are no restrictions on the ability of Northern Air Support Ltd. to transfer funds to the Company.

The Company does not have any long term debt. However, if the NWT diamond project goes into production the Company will have to repay its proportionate share of the costs incurred in placing the mine into production. The BHP Diamonds Inc. ("BHP") joint venture agreement provides that BHP must advance up to $500 million US to place the first mine into production and that the Company must repay BHP its proportionate share of funds advanced by BHP, with interest at LIBOR plus 3% per annum, out of 90% of its share of net cash flow from the mine. If the costs of the first mine exceeds $500 million US, the Company must pay its proportionate share of the excess costs. It is anticipated that if the Company requires additional capital in this regard it will be raised through bank accommodation and/or equity financing.

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Dia Met Minerals Ltd. as at January 31, 1996 and 1995 and the consolidated statements of operations and deficit, mineral properties and changes in financial position for the years ended January 31, 1996, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1996 and 1995 and the results of its operations, and changes in its financial position for the years ended January 31, 1996, 1995 and 1994 in accordance with generally accepted accounting principles in Canada.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for the years ended January 31, 1996, 1995 and 1994 and shareholders' equity as at January 31, 1996 and 1995, to the extent summarized in note 13 to the consolidated financial statements.

KPMG Peat Marwick Thorne

Chartered Accountants
Kelowna, B.C., Canada
March 27, 1996

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian dollars)

January 31, 1996 and 1995

		1996		1995 *(restated see note 12)*
ASSETS				
Current assets				
Cash	$	104,105	$	322,951
Temporary investments *(note 1[c])*		7,692,493		10,993,536
Accounts receivable		980,475		535,960
Inventory		107,620		57,177
Prepaid expenses		134,682		123,406
		9,019,375		12,033,030
Cash restricted for exploration		887,069		-
Property, plant and equipment *(note 2)*		1,746,585		1,609,604
Mineral properties				
Mineral and exploration interests *(note 3)*		160,693		168,624
Deferred exploration and development costs *(note 4)*		6,431,606		4,789,678
		6,592,299		4,958,302
	$	18,245,328	$	18,600,936
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Loan payable	$	907,850	$	-
Accounts payable and accrued liabilities		693,287		782,705
Settlement payable *(note 12)*		4,067,000		-
		5,668,137		782,705
Settlement payable *(note 12)*		-		4,067,000
Deferred option payments *(notes 7[a] and 7[g])*		887,069		-
Shareholders' Equity				
Share capital *(note 6)*				
Authorized: 100,000,000 Class A shares				
25,000,000 Class B shares				
Issued: 5,383,074 Class A shares		3,659,436		3,659,436
21,532,296 Class B shares		15,934,399		15,934,399
		19,593,835		19,593,835
Deficit		(7,903,713)		(5,842,604)
		11,690,122		13,751,231
Agreements, commitments and contingencies (note 7)				
Related party transactions (note 8)				
Subsequent events (note 9)				
	$	18,245,328	$	18,600,936

See accompanying notes to consolidated financial statements

On behalf of the Board:

Director James E. Eccott Director K. A. Christofferson

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in Canadian dollars)

	Years ended January 31, 1996	1995	1994 *(restated see note 12)*
REVENUE			
Interest	$ 867,614	$ 837,011	$ 734,990
Aircraft operations	911,806	675,768	87,389
Diamond recovery plant operations	-	438,551	85,616
Gain on sale of temporary investments	-	-	38,200
	1,779,420	1,951,330	946,195
EXPENSES			
Aircraft operations	826,835	679,341	143,667
Depreciation	240,245	197,810	63,762
Diamond recovery plant operations	6,658	160,514	14,190
General and administrative	1,270,128	1,111,272	489,823
Write down of temporary investments to market	-	308,104	-
	2,343,866	2,457,041	711,442
Earnings (loss) before the following	(564,446)	(505,711)	234,753
OTHER EXPENSES			
Cost of mineral properties abandoned	(1,491,194)	(48,707)	-
Settlement of litigation *(note 12)*	-	-	(4,067,000)
	(1,491,194)	(48,707)	(4,067,000)
Loss before income taxes	(2,055,640)	(554,418)	(3,832,247)
Income taxes *(note 10)*	5,469	95,364	-
Loss for the year	(2,061,109)	(649,782)	(3,832,247)
Deficit, beginning of year as previously stated	(1,775,604)	(1,125,822)	(1,360,575)
Prior period adjustment *(note 12)*	(4,067,000)	(4,067,000)	-
Deficit, as restated	(5,842,604)	(5,192,822)	-
Deficit, end of year	$ (7,903,713)	$ (5,842,604)	$ (5,192,822)
Loss per share *(note 1[i])*	$ (.08)	$ (.02)	$ (.14)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF MINERAL PROPERTIES

(Expressed in Canadian dollars)

	Years ended January 31,		
	1996	1995	1994
DEFERRED EXPLORATION AND DEVELOPMENT COSTS			
Claims exploration, laboratory, assay and engineering expenditures	$ 3,206,583	$ 1,071,411	$ 281,854
Management fees and salaries	62,646	44,346	25,539
Office and other	10,471	84,832	31,966
Professional fees	84,531	97,453	85,218
Travel and other	131,014	89,648	30,000
	3,495,245	1,387,690	454,577
Less			
Deferred option payments applied	(370,054)	-	-
Expenditures during the year for mineral interests and deferred exploration and development	3,125,191	1,387,690	454,577
Less			
Cost of claims abandoned or sold			
Mineral interests	(7,931)	-	-
Deferred exploration and development costs	(1,490,679)	(48,707)	-
Compensation for loss of mineral samples	1,027	-	-
Other income	6,389	-	-
	(1,491,194)	(48,707)	-
Balance, beginning of year	4,958,302	3,619,319	3,164,742
Balance, end of year	$ 6,592,299	$ 4,958,302	$ 3,619,319

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Expressed in Canadian dollars)

	1996	1995	1994
		Years ended January 31,	
			(restated see note 12)
CASH PROVIDED BY (USED IN)			
Operations			
Loss for the year	$ (2,061,109)	$ (649,782)	$ (3,832,247)
Items not involving cash			
Depreciation	240,245	197,810	63,762
Cost of mineral properties abandoned	1,491,194	48,707	-
Change in non-cash operating working capital	(595,652)	166,280	3,959,742
	(925,322)	(236,985)	191,257
Financing			
Deferred option payments received	1,257,123	-	-
Decrease in cash deposits held on shares to be issued	-	(103,497)	(70,263)
Shares issued for cash and other assets	-	517,869	13,209,510
	1,257,123	414,372	13,139,247
Investments			
Expenditures on deferred exploration and development	(3,495,245)	(1,387,690)	(446,274)
Purchases of property, plant and equipment	(377,226)	(142,637)	(1,550,448)
Cash restricted for exploration	(887,069)	-	-
	(4,759,540)	(1,530,327)	(1,996,722)
INCREASE (DECREASE) IN CASH	(4,427,739)	(1,352,940)	11,333,782
Cash, beginning of year	11,316,487	12,669,427	1,335,645
Cash, end of year	$ 6,888,748	$ 11,316,487	$ 12,669,427
CASH IS DEFINED AS			
Cash	$ 104,105	$ 322,951	$ 429,722
Temporary investments	7,692,493	10,993,536	12,239,705
Loan payable	(907,850)	-	-
	$ 6,888,748	$ 11,316,487	$ 12,669,427

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

Years ended January 31, 1996, 1995, and 1994

Dia Met Minerals Ltd. is incorporated under the laws of British Columbia and its principal business activities include mineral property exploration and development.

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The Company, directly and indirectly through joint exploration and development ventures and other arrangements, is in the process of exploring and developing its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable.

The recoverability of the amounts shown for mineral properties and property, plant and equipment, $6,592,299 and $1,746,585, respectively, as at January 31, 1996 is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of the properties and the generation of sufficient income through future production from or the disposition of such assets.

These financial statements have been prepared on the basis of accounting principles generally accepted in Canada. The results of applying accounting principles generally accepted in the United States are set out in note 13.

b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary.

c) Temporary investments

Temporary investments are stated at the lower of cost and quoted market value.

	1996	1995
Quoted market value	$ 8,050,112	$ 10,993,536

d) Inventory

Inventory is stated at the lower of cost and net realizable value.

e) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is provided using the following methods and annual rates:

Asset	Method	Rate
Aircraft operations		
Aircraft	Straight-line	20%
Utility and shop equipment	Declining balance	20%
Operations equipment	Declining balance	20%
Office equipment	Declining balance	20% and 30%
Building	Straight-line	4%
License	Straight-line	2.5%
Diamond recovery plant		
Building	Straight-line	2.5%
Machinery and equipment	Straight-line	2.5%
Furniture and fixtures	Straight-line	10%
Head office		
Furniture, fixtures and equipment	Declining balance	15%
Leasehold improvements	Straight-line	20%

f) Mineral properties

The amount shown for mineral properties includes the direct costs of acquiring, maintaining, exploring and developing properties, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. All other costs, including administrative overhead, are expensed as incurred. Mineral properties acquired for share consideration are recorded at the market value of the shares at the date of acquisition.

Management periodically reviews the carrying values of its investments in mineral properties with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with unproven reserves. However, properties which have not demonstrated suitable prospects at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral and exploration interests and deferred exploration and development costs represent unamortized costs to date and do not necessarily reflect present or future values.

The accumulated costs of mineral properties that are developed to the stage of commercial production will be amortized to operations through unit of production depletion based on proven and probable reserves.

g) Joint exploration and development ventures

A portion of the Company's exploration and development activities are conducted jointly with others and accordingly these financial statements reflect only the Company's share of expenditures in such activities.

h) Foreign currency translation

Amounts denominated in foreign currencies have been translated into Canadian dollars as follows:

i) Monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date;
ii) Non-monetary assets and liabilities at the rate of exchange prevailing at the time of acquisition of the assets or assumption of the liabilities; and
iii) Revenue and expenses at rates approximating the rates of exchange prevailing on the transaction date.

Gains or losses on translation are included in earnings.

i) Loss per share

Basic loss per share has been calculated using the weighted average number of common shares outstanding during the years. The full exercise of share options referred to in note 6 is anti-dilutive for all years presented and consequently loss per share on a fully diluted basis has not been presented.

(Expressed in Canadian dollars)

2. PROPERTY, PLANT AND EQUIPMENT

1996	Cost	Accumulated Depreciation	Net book Value
Aircraft operations			
Aircraft	$ 1,517,019	$ 427,809	$ 1,089,210
Utility and shop equipment	26,006	7,122	18,884
Operations equipment	43,791	9,223	34,568
Office equipment	16,270	6,907	9,363
Building	311,917	8,318	303,599
License	26,336	439	25,897
	1,941,339	459,818	1,481,521
Diamond recovery plant			
Land	13,934	-	13,934
Building	48,347	2,418	45,929
Machinery and equipment	84,540	4,227	80,313
Furniture and fixtures	15,000	3,000	12,000
	161,821	9,645	152,176
Head office			
Furniture, fixtures and equipment	91,154	17,998	73,156
Leasehold improvements	49,928	10,196	39,732
	141,082	28,194	112,888
	$ 2,244,242	$ 497,657	$ 1,746,585

1995	Cost	Accumulated Depreciation	Net book Value
Aircraft operations			
Aircraft	$ 1,517,019	$ 244,406	$ 1,272,613
Utility and shop equipment	19,613	3,200	16,413
Operations equipment	26,912	2,691	24,221
Office equipment	10,358	3,402	6,956
Building (under construction)	82,482	-	82,482
Leasehold improvements	17,368	2,363	15,005
	1,673,752	256,062	1,417,690
Diamond recovery plant			
Land	13,934	-	13,934
Building	48,347	1,209	47,138
Machinery and equipment	84,540	2,113	82,427
Furniture and fixtures	15,000	1,500	13,500
	161,821	4,822	156,999
Head office			
Furniture, fixtures and equipment	37,492	9,823	27,669
Leasehold improvements	11,318	4,072	7,246
	48,810	13,895	34,915
	$ 1,884,383	$ 274,779	$ 1,609,604

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian dollars)

Years ended January 31, 1996, 1995, and 1994

3. MINERAL AND EXPLORATION INTERESTS

Program and location	Nature of interest	1996	1995
Paul-Mike claims, near Cranbrook, B.C.	100% of mineral claims	$ [illegible]	$ 44,287
Albert River claims, near Radium, B.C.	Joint venture interest *(see note 7[a])*	7,863	7,863
Mark claims, near Golden, B.C.	-		2,017
Jack claims, near Golden, B.C.	100% of mineral claims	1,546	1,546
Northern Gold and Bandit claims, northeastern B.C.	1% net smelter royalty *(see note 7[b])*	[illegible]	39,297
Kirkland Lake, Ontario claims	-		-
Rouyn, Quebec claims	-		5,914
Northwest Territories claims	Joint venture interest *(see note 7[c])*	[illegible]	67,700
Joint exploration program in western Alberta	Joint venture interest *(see note 7[d])*		-
Exploration program in western Alberta	-		-
Exploration program in western United States	100% of exploration program		-
Iron Range exploration program	Joint venture interest *(see notes 7[e] and 7[g])*		-
Nevada Gold exploration program	Joint venture interest *(see notes 7[f] and 7[g])*		-
Exploration program in northern Europe	100% of exploration program *(see note 7[h])*		-
Exploration program in eastern Europe	100% of exploration program *(see note 7[i])*		-
Magnesite Belt program	100% of exploration program *(see note 7[j])*		-
		$ 160,693	$ 168,624

The Mark claims, Kirkland Lake, Ontario claims, Rouyn, Quebec claims and the exploration program in Western Alberta were abandoned in the 1996 fiscal year.

4. DEFERRED EXPLORATION AND DEVELOPMENT COSTS

Deferred exploration and development costs have been incurred on individual mineral and exploration interests as follows:

	1996	1995
Paul-Mike claims	$ 399,948	$ 380,645
Albert River claims	203,074	198,890
Mark claims	-	114,878
Jack claims	372,405	371,905
Northern Gold and Bandit claims	899,601	899,601
Kirkland Lake claims	-	25,339
Rouyn, Quebec claims	-	43,497
Northwest Territories claims	1,226,368	1,082,088
Western Alberta joint program	771,442	748,789
Western Alberta program	-	256,312
Western United States program	54,300	54,300
Iron Range program	46,042	-
Nevada Gold program	51,506	-
Northern Europe program	2,116,662	586,742
Eastern Europe program	261,088	26,692
Magnesite Belt program	29,170	-
	$6,431,606	$4,789,678

The Mark claims, Kirkland Lake, Ontario claims, Rouyn, Quebec claims and the exploration program in Western Alberta were abandoned in the 1996 fiscal year.

(Expressed in Canadian dollars)

5. LOAN PAYABLE

The loan payable is secured by temporary investments.

6. SHARE CAPITAL

The following changes occurred to authorized and issued share capital during the periods indicated:

Authorized	Number of common shares	Number of Class A shares	Number of Class B shares
Balance, January 31, 1994	50,000,000	-	-
Stock split on February 22, 1994	50,000,000	-	-
	100,000,000	-	-
Capital reorganization on July 14, 1994	(100,000,000)	100,000,000	25,000,000
Balance, January 31, 1995 and January 31, 1996	-	100,000,000	25,000,000

Class A shares are without par value, entitled to one vote per share and in certain circumstances are convertible to one Class B share.

Class B shares are without par value, entitled to ten votes per share and are convertible to one Class A share.

The Class A and Class B shares have the same rights and are equal in all respects except for voting rights.

Issued:

Until July 14, 1994, the Company had issued and outstanding a single class of common shares. On July 14, 1994, the Company underwent a capital reorganization whereby the existing common shares outstanding at that date were exchanged for newly authorized Class A and Class B shares on the basis of 1/4 Class A share and one Class B share for each common share outstanding. There were no changes in issued share capital from January 31, 1995 to January 31, 1996.

In addition to the shares issued:

a) A further 125,000 Class A shares and 500,000 Class B shares may be issued as disclosed in note 7(c).

b) The directors and certain other individuals have been granted options to purchase shares of the Company, subject to their remaining as a director or employee prior to exercising the option, as follows:

Class A shares	Class B shares	Price per share	Expiry date
19,550	78,200	$ 5.80	July 2, 1997
750	3,000	6.80	August 17, 1997
60,000	246,000	15.80	March 10, 1998
1,500	-	9.25	March 10, 1998
26,000	104,000	15.80	July 12, 1998
2,500	-	9.25	December 17, 1998
-	10,000	16.30	December 17, 1998
625,000	-	13.37	September 23, 2004
12,000	-	9.25	September 23, 2004
641,000	-	9.25	February 21, 2005
73,000	-	12.00	July 19, 2005
50,000	-	12.50	January 4, 2006

7. AGREEMENTS, COMMITMENTS AND CONTINGENCIES

a) Albert River joint venture

During fiscal year 1996, option payments totaling $1,000,000 were received from a third party in exchange for a 49% undivided interest in Albert River claims previously held 100% by the Company. The Company retains a 51% interest in the claims and the claims are to be developed through a joint venture between the two parties. Under the terms of the joint venture agreement, the $1,000,000 option payments are to be used for exploration expenditures on programs conducted under the Agreement. Joint venture exploration expenditures in excess of $1,000,000 are to be funded by each party in proportion to each joint venture party's participating interest. If the work program on the claims is terminated or abandoned, the third party will retain its 49% undivided interest in the joint venture claims and has the option of applying any unexpended option payments towards a mutually agreeable joint venture with the Company in another property or of having the unexpended option funds returned. The Agreement further provides formulas for dilution and the calculation of net profit interests in certain circumstances. During fiscal year 1996, expenditures of $370,054 were incurred on joint venture exploration programs. Unexpended option payments at January 31, 1996 total $634,739 and are included in cash restricted for exploration and deferred option payments in the accompanying balance sheet.

b) Northern Gold and Bandit claims

The Company has a carried 1% net smelter royalty interest and other interests in 600 units of mineral claims. Royalties will be paid after first deducting $228,573 from any such royalties.

c) Northwest Territories claims

The Company has a 29% participating interest in certain of the claims held by a joint venture (referred to as Core and Buffer claims). The joint venture participant holding a 51% participating interest must provide financing for the other joint venture participants up to $500 million U.S. for the first mine as long as its joint venture interest does not fall below 50%. Should a mine be established on the claims, the Company must repay the 51% participant its share of the mine financing and preparation costs plus interest at LIBOR plus 3% per annum from 90% of its share of the net cash flow from the mine until recoupment. Funding in excess of $500 million U.S. for the first mine and funding for a second and subsequent mines would require the Company to provide pro rata funding or suffer dilution of its interest in such mines.

For certain other claims (SE Block claims) held by the joint venture, the Company retains a 24.5% participating interest subject to a 10% non-contributing interest held by another party. The non-contributing interest provides that the Company and another joint venture participant must pay the 10% share of all expenditures incurred on the claims. The 10% non-contributing interest will not receive any proceeds from production from the claims until the Company and another joint venture participant have recovered such expenditures. The Company's participating interest in these claims may be diluted down to a 9.8% participating interest in certain cases.

The Company has a commitment to issue to two directors a total of 125,000 Class A shares and 500,000 Class B shares if there are more than 300 days of commercial production from a mine in this venture.

d) Western Alberta joint exploration program

The Company has a joint venture agreement with a third party allowing the third party the right to earn a 51% participating interest in the joint venture. To acquire their interest, the third party must expend in aggregate $1,600,000 on the joint venture program by December 31, 1997. During the period the third party is acquiring their 51% participating interest, joint venture expenditures are to be shared 71.43% by the third party and 28.57% by the Company. Once the 51% participating interest is earned by the third party, the Company will retain a carried interest of 15.66% and a participating interest of 33.34%. Joint venture expenditures on the 15.66% carried interest held by the Company will be repaid to the third party in full out of 90% of the product attributable to the 15.66% carried interest. After these expenditures have been repaid, the product will be shared 51% by the third party and 49% by the Company.

(Expressed in Canadian dollars)

7. AGREEMENTS, COMMITMENTS AND CONTINGENCIES *(continued)*

e) Iron Range program

In an Agreement with a third party effective August 22, 1995, the Company agreed to conduct an exploration program to certain limits within an area of interest using the services of the third party. The Company has the option of acquiring a 100% interest in certain Crown granted mineral claims owned by the third party subject to net smelter return royalties of .5% each held by two other parties against the claims and on providing a 2% net smelter return royalty to the third party on these claims. The third party is also entitled to a 2% net smelter return royalty on any further mineral interests or real property acquired by the Company within the area of interest covered by the Agreement. The Company has the right, at any time within 20 years of the date of the Agreement, to purchase 50% of the third party's royalty interest for $1,500,000, such price being subject to adjustments in the Consumer Price Index. The Agreement terminates on August 31, 1998 unless extended by mutual consent.

f) Nevada Gold program

In an Agreement with a third party effective August 22, 1995, the Company agreed to conduct an exploration program to certain limits within an area of interest using the services of the third party. Should the Company acquire any mineral interest or other real property within the area of interest covered by the Agreement, the third party has the right to receive a 2% net smelter return royalty on any such property acquired. The Company has the right, at any time within 20 years of the date of the Agreement, to purchase 50% of the royalty interest for $1,500,000, such price being subject to adjustments in the Consumer Price Index. The Agreement terminates on August 31, 1998 unless extended by mutual consent.

g) Iron Range and Nevada Gold joint venture

Under an Option and Joint Venture Agreement dated January 31, 1996, the Company granted a third party the right to acquire up to a 49% participating interest in the claims and areas of interest covered under the Iron Range and Nevada Gold programs referred to above. Terms of the Agreement require the third party to make the following payments on or before the dates indicated:

Date of Payment	Amount	Cumulative Participating Interest Earned
December 13, 1995	$ 250,000	Nil
July 15, 1996	900,000	12.25%
July 15, 1997	850,000	24.50%
July 15, 1998	1,000,000	30.75%
July 15, 1999	1,000,000	49.00%

Any funds received from the third party to a total of $4,000,000 are to be used for exploration expenditures on programs conducted under the Agreement. Joint venture exploration expenditures in excess of $4,000,000 will be funded by each party in proportion to each party's participating interest in the joint venture. The Agreement provides formulas for dilution and the calculation of net profit interests in various circumstances. Funds received under the Agreement to January 31, 1996 plus accrued interest to be used for joint venture exploration expenditures total $252,330 and are included in cash restricted for exploration and deferred option payments in the accompanying balance sheet.

h) Northern Europe exploration program

The Company has an Agreement with a third party pursuant to which the Company has guaranteed a minimum annual payment to the third party of US $60,000 for geological consulting services to be rendered in connection with the northern Europe exploration program. In addition, the Company must pay the third party a one percent net smelter returns royalty in respect of all properties acquired in northern Europe by the Company as a result of exploration done under this Agreement. The Company will have the right to buy out two thirds of this royalty for US $2,000,000 at any time within the first five years after commencement of commercial production of the first mine, and the remaining one third of the royalty for US $1,000,000 within the second five years.

(Expressed in Canadian dollars)

7. AGREEMENTS, COMMITMENTS AND CONTINGENCIES *(continued)*

i) Eastern Europe exploration program

On August 7, 1995, the Company was granted an exploration license by a foreign government. The license is for five years and allows the Company to investigate and explore within an area of interest. Under the terms of the license, the Company is required to spend US $500,000 within two years from the date of the granting of the license and, if it does not, it may maintain the license in good standing by paying to the foreign government the difference between US $500,000 and the actual amount spent by the Company in the area of interest over the two year period. The Company must also pay to the foreign government an annual payment equal to 2% of the cost of the field exploration expenditures incurred in the area of interest. Other terms of the license relate to the possible reimbursement by third parties of the investigation and exploration costs incurred by the Company plus interest at 20% per annum, should the Company not proceed to mining in the area of interest and should mining proceed by another party.

j) Magnesite Belt program

In an Agreement with a third party effective August 22, 1995, the Company agreed to conduct an exploration program within an area of interest using the services of the third party. Should the Company acquire any mineral interest or other real property within the area of interest covered by the Agreement, the third party has the right to receive a 2% net smelter return royalty on any such property acquired. The Company has the right, at any time within 20 years of the date of the Agreement, to purchase 50% of the royalty interest for $1,500,000, such price being subject to adjustments in the Consumer Price Index. The Agreement terminates on August 31, 1998 unless extended by mutual consent.

k) A writ has been filed in the Supreme Court of British Columbia by a third party claiming an increased participating interest has been earned in certain Northwest Territories claims (Buffer claims) described and set out in an agreement between the Company and the third party. The third party is requesting the Court to directly and/or indirectly recognize his interest. As no evidence has been received and examinations for discovery have not occurred, it is difficult to evaluate the claim. It is important to note that the dispute does not affect the Core claims currently under development pursuant to the agreement referred to in note 7(c). However, the Misery Pipe, which is also proposed for development, is located within the Buffer claims.

8. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as summarized below:

	1996	1995	1994
Exploration and development expenditures paid to companies over whom a director of the Company has significant influence	$ 2,181,060	$ 492,051	$ 11,394
Professional fees paid to a director and an officer of the Company	167,629	175,992	70,528
Short term advances to a company over whom a director of the Company has significant influence, repaid prior to the 1995 year end	-	-	980,000

Included in accounts payable and accrued liabilities at January 31, 1996 is $163,275 (January 31, 1995 - $87,048) payable to related parties.

(Expressed in Canadian dollars)

9. SUBSEQUENT EVENTS

Subsequent to January 31, 1996, the following occurred:

a) The Company granted options to a director to purchase 200,000 Class A shares at a price of $11.25 per share, exercisable by February 5, 2006.

b) The Company pledged temporary investments to a value of $400,000 U.S. as security for a letter of credit advanced in the name of the Company's wholly owned subsidiary.

c) The payment in the amount of $900,000 due on or before July 15, 1996 as set out in note 7(g) was received.

10. INCOME TAXES

As at January 31, 1996, the Company had renounced in favor of investors, a total of $2,856,405 in income tax deductions related to the expenditure of funds on the Company's mineral claims and other interests.

As at January 31, 1996, the Company has the following amounts available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts:

Allowable capital losses carried forward indefinitely for income tax purposes available to reduce future years' taxable capital gains	$ 161,547
Non capital losses carried forward available until the year 2003	4,484,491
Amounts deducted for accounting purposes in excess of those deducted for tax purposes	2,898,382

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

12. PRIOR PERIOD ADJUSTMENT

The Company and others had been named as defendants in a statement of claim filed in the Supreme Court of British Columbia by a previous shareholder of the Company. The claim made certain allegations regarding the actions, duties and responsibilities of the defendants and sought an order to have a share sale and option agreement, entered into between the previous shareholder and certain defendants, rescinded and the shares of the Company returned to the previous shareholder and/or damages in deceit or in lieu of rescission, punitive damages and costs.

On February 29, 1996, the Company settled this litigation. Subject to regulatory approval, the Company will issue 350,000 Class A shares to Sand River Resources Ltd. in complete settlement of all claims. If regulatory approval is not obtained within 60 days of the settlement date or such additional time to be chosen by Sand River Resources Ltd., the settlement will be made by the payment of $4,000,000 to Sand River Resources Ltd. by the Company.

At all times the Company was of the view that there was no merit to the litigation. The action was settled on a nuisance basis following a full review by the independent directors and a report by legal counsel concerning the anticipated costs to take the case to trial, the likelihood of recovering a cost award from the Plaintiff, the substantial amount of management time that would be involved in taking the case to trial as well as the risks associated with any litigation.

Since the action was commenced in fiscal 1994, current accounting conventions require that the settlement be reflected as an unusual item in the consolidated statement of operations and deficit for that year and as an adjustment to liabilities in the balance sheet. Previously stated deficits and liabilities have been restated to reflect the adjustment for the settlement of the litigation. The monetary value of the settlement ($4,067,000) has been determined by multiplying the closing market price of the Company's Class A shares on February 29, 1996 ($11.62 per share) by 350,000 Class A shares. The price per share represents a reasonable value of the trading range for the Class A shares for the period immediately prior to the settlement.

(Expressed in Canadian dollars)

13. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

a) Deferred income taxes

The Financial Accounting Standards Board has issued Statement No. 109, "Accounting for Income Taxes". Statement 109 has changed the method companies use to account for income taxes from the deferral method to an asset and liability method. The Company has determined that the adoption of Statement 109 for United States reporting purposes has the following cumulative effects on its deferred income tax liability, issued share capital and deficit.

	1996	1995
Increase in deferred tax liability	$ 675,749	$ 675,749
Decrease in share capital	874,059	874,059
Decrease in deficit	198,310	198,310

Any deferred tax assets initially recognized on losses would be fully offset by a valuation allowance as at each year end.

b) Underwriting costs

The Company incurred underwriting costs amounting to $50,000 in 1985 which, under Canadian GAAP, were charged against retained earnings. Under United States GAAP such costs should be deducted from share capital.

c) Prior period adjustment

As disclosed in note 12, the Company recorded the settlement costs of litigation in the amount of $4,067,000 as a prior period adjustment in accordance with Canadian GAAP. Under United States GAAP the settlement costs of the litigation would have been recorded in the statement of operations and deficit for the year ended January 31, 1996.

d) Cash and cash equivalents

Temporary investments held by the Company include primarily government and corporate bonds, term deposits and other high grade government and corporate paper all having varying terms of maturity ranging from May 1, 1996 to December 1, 1999, but all are capable of prompt liquidation. Such temporary investments are considered to be cash or cash equivalents under Canadian GAAP. Under United States GAAP, cash equivalents exclude any items whose maturities extend beyond 90 days at the time of acquisition. The effect of applying United States GAAP to cash and cash equivalents as set out in the consolidated statements of changes in financial position for the years presented is as follows:

		Years ended January 31,	
	1996	1995	1994
Cash and cash equivalents under Canadian GAAP	$ 6,888,748	$ 11,316,487	$ 12,669,427
Loan payable	907,850	-	-
Items with original maturities greater than 90 days	(7,692,493)	(10,993,536)	(12,239,705)
Cash and cash equivalents under United States GAAP	$ 140,105	$ 322,951	$ 429,722

In addition, the following disclosure would be made under United States GAAP in the consolidated statements of changes in financial position for changes in temporary investments:

		Years ended January 31,	
	1996	1995	1994
Cash provided by (used in) operations under Canadian GAAP	$ (925,322)	$ (236,985)	$ 191,257
Gain on sale of temporary investments	-	-	(38,200)
Write down of temporary investments to market, a non-cash item	-	308,104	-
Amortization of discount, net	(225,211)	(185,072)	(225,498)
Cash used in operations under United States GAAP	$ (1,150,533)	$ (113,953)	$ (72,441)

		Years ended January 31,	
	1996	1995	1994
Cash used in investing under Canadian GAAP	$ (4,759,540)	$ (1,530,327)	$ (1,996,722)
Purchases of temporary investments	(658,604)	(3,246,872)	(14,492,172)
Proceeds on redemption of temporary investments	4,184,858	4,370,009	2,870,123
Proceeds on sale of temporary investments	-	-	68,150
Cash used in investing under United States GAAP	$ (1,233,286)	$ (407,190)	$ (13,550,621)

(Expressed in Canadian dollars)

e) Change in non-cash operating working capital

Under United States GAAP, the following detail would be disclosed in the consolidated statements of changes in financial position with respect to changes in non-cash operating working capital:

	Years ended January 31,		
	1996	1995	1994
Increase in accounts receivable	$ (444,515)	$ (40,020)	$ (417,074)
Increase in inventory	(50,443)	(57,177)	-
Increase in prepaid expenses	(11,276)	(28,129)	(84,815)
Increase in accounts payable and accrued liabilities	3,977,582	490,701	195,536
Increase (decrease) in deferred revenue	-	(199,095)	199,095
	$ 3,471,348	$ 166,280	$ (107,258)

f) Temporary investments

In accordance with the Statement of Financial Accounting Standards No. 115 the Company's temporary investments would be classified as available for sale. Thus, the unrealized holding loss of $308,104 included in net loss for the year ended January 31, 1995 for Canadian GAAP would be excluded from net loss and shown as a separate component of shareholders' equity for United States GAAP.

As well, an unrealized holding gain of $504,355 would be recognized and shown as a separate component of shareholders' equity for the year ended January 31, 1996 for United States GAAP which is not recognized for Canadian GAAP. The net unrealized holding gain (loss) that would be disclosed in shareholders' equity is: 1996 - $196,251; 1995 - $(308,104).

In addition, the following disclosure would be made for temporary investments in the consolidated balance sheets for United States GAAP:

	1996	1995
Temporary investments under Canadian GAAP	$ 7,692,493	$ 10,993,536
Discount amortization of previous write down of temporary investments to market for Canadian GAAP	(146,736)	-
Write up of temporary investments to market for United States GAAP	504,355	-
Temporary investments under United States GAAP	$ 8,050,112	$ 10,993,536

g) The following table provides a reconciliation of the loss determined under Canadian GAAP with the net earnings (loss) determined under United States GAAP

	Years ended January 31,		
	1996	1995	1994
			(restated see note 12)
Loss determined under Canadian GAAP	$ (2,061,109)	$ (649,782)	$ (3,832,247)
Prior period adjustment	80 (4,067,000)	-	4,067,000
Unrealized loss on temporary investments	-	308,104	-
Discount amortization of previous write down of temporary investments to market	21 (146,736)	-	-
Net earnings (loss) determined under United States GAAP	$ (6,274,845)	$ (341,678)	$ 234,753

The effects of applying United States GAAP on the assets, liabilities and shareholders' equity of the Company are summarized in note 13(a), (b), (c), (d) and (f).

h) Basic earnings (loss) per share would be as follows under United States GAAP

Years ended January 31,		
1996	1995	1994
(.23)	(.01)	.01

Statement of Corporate Governance Practices

The Board of Directors of the Corporation believes that sound corporate governance practices are essential to the well being of the Corporation and its shareholders, and that these practices should be reviewed regularly to ensure that they are appropriate.
A description of the Corporation's corporate governance practices follows. This Statement of Corporate Governance Practices has been prepared by the Corporate Governance Committee of the Board of Directors and has been approved by the Board of Directors.

The By-Laws of The Toronto Stock Exchange require that this Statement of Corporate Governance Practices relate the corporate governance practices of the Board of Directors to the "Guidelines for Improved Corporate Governance" contained in the December, 1994 Report of The Toronto Stock Exchange Committee on Corporate Governance in Canada (the "TSE Report"). The headings which appear below attempt to address the principal matters relating to corporate governance practices discussed in the TSE Report.

In this Statement, the term "unrelated director" has the meaning given to it in the TSE Report - a director who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests arising from shareholding.

MANDATE OF THE BOARD

The mandate of the Board of Directors is to supervise the management of the business and affairs of the Corporation and to act with a view to the best interests of the Corporation. The frequency of meetings as well as the nature of agenda items changes depending upon the state of the Corporation's affairs, ongoing developments with respect to the NWT project, active and proposed exploration projects, and in light of opportunities or risks which the Corporation faces. During 1995 the Board met four times.

BOARD COMPOSITION

The Board of Directors is composed of six members. The Board of Directors believes that four directors are "unrelated directors" and the remainder are "related directors", within the meaning of the TSE Report. Accordingly, the Board of Directors is constituted with a majority of individuals who qualify as "unrelated directors" within the meaning of the TSE Report.

Mr. Charles E. Fipke is Chair of the Board of Directors.

Mr. James E. Eccott is President and Chief Executive Officer of the Corporation and serves as a director.

BOARD COMMITTEES

The Board of Directors has four committees: the Audit Committee, the Compensation Committee, the Corporate Governance Committee and the Environmental and Safety Committee. Set out below is a description of their mandates and activities.

Audit Committee: During 1995 the Audit Committee was composed of two unrelated and one related directors. In April, 1996 the Audit Committee was reconstituted and is now composed entirely of

unrelated directors. The committee is responsible for reviewing the Corporation's financial reporting procedures, internal controls and the performance of the Corporation's external auditors.
The committee is also responsible for reviewing quarterly financial statements and the annual financial statements prior to their approval by the full Board of Directors. The Audit Committee met three times in 1995.

Compensation Committee: The Compensation Committee is composed entirely of unrelated directors and makes recommendations to the Board on, among other things, the compensation of senior executives. The committee also reviews training programs and succession plans. The committee held one meeting in 1995.

Corporate Governance Committee: A Corporate Governance Committee of the Board was established in April, 1996. It is composed of two unrelated and one related directors. It is responsible for making recommendations to the full Board with respect to developments in the area of corporate governance and the practices of the Board. The committee is also responsible for reporting to the Board with respect to appropriate candidates for nomination to the Board, and for evaluating the performance of the Board.

Environmental and Safety Committee: An Environmental and Safety Committee of the Board was established in April, 1996. It is composed of two unrelated and one related directors. It is responsible for reviewing the Company's policies and programs with regard to environmental, health and safety matters.

DECISIONS REQUIRING BOARD APPROVAL

In addition to those matters which must by law be approved by the Board, management is also required to seek Board approval for any disposition or expenditure in excess of $100,000.00. Management is also required to consult with the Board before entering into any venture which is outside of the Corporation's existing businesses.

BOARD PERFORMANCE

The Corporate Governance Committee will monitor and report to the Board concerning the effectiveness of the Board's operations.

SHAREHOLDER FEEDBACK

The Corporation encourages investor inquiries and responds promptly to all information requests. The Corporation has also retained investor relations expertise to assist it in the ongoing development of this function. The Corporate Governance Committee of the Board monitors the nature of the information requested by and provided to the Board so that it is able to determine if the board can be more effective in identifying problems and opportunities for the Corporation.

EXPECTATIONS OF MANAGEMENT

The Board reviews, from time to time, the corporate objectives of the CEO and the projects and priorities of the Company. The Board expects management to have in place an effective system of internal financial controls and other systems to permit compliance with the Company's financial reporting and environmental stewardship responsibilities.

Corporate Data

OFFICERS

James E. Eccott (3)
President, Chief Executive Officer and Director

Grant L. Miller, C.A.
Chief Financial Officer and Secretary

BOARD OF DIRECTORS

Charles E. Fipke (4)
Chairman of the Board and Director

Peter Y. Atkinson (1) (2) (3)
Director

Keith A. Christofferson (1) (2)
Director

James E. Eccott (3)
President, Chief Executive Officer and Director

David W.G. Mackenzie (3) (4)
Director

Dr. George W. Poling (1) (2) (4)
Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Environmental and Safety Committee

CORPORATE OFFICE

Dia Met Minerals Ltd.
1695 Powick Road
Kelowna, BC, Canada
V1X 4L1

Telephone (604) 861-8660
Facsimile (604) 861-3649
As of Oct. 19, 1996 area code is (250)

CORPORATE COMMUNICATIONS

1-800-844-9404
Email: corporate@diamet.com
www.multigrafix.com/diamet

REGISTERED OFFICE

20580 - 102B Avenue
Langley, BC, Canada
V1M 3H2

LEGAL COUNSEL

Keith A. Christofferson
Barrister and Solicitor
20580 - 102B Avenue
Langley, BC, Canada
V1M 3H2

AUDITORS

KPMG Peat Marwick Thorne
Suite 300 - 1674 Bertram Street
Kelowna, BC, Canada
V1Y 9G4

BANKERS

Royal Bank of Canada
510 Bernard Avenue
Kelowna, BC, Canada
V1Y 7N9

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
510 Burrard Street
Vancouver, BC, Canada
V6C 3B9

8th Floor - 151 Front Street
Toronto, ON, Canada
M5J 2N1

STOCK EXCHANGE LISTINGS

American Stock Exchange
Symbol DMM.A and DMM.B

Toronto Stock Exchange
Symbol DMM.A and DMM.B

Vancouver Stock Exchange
Symbol DMM.A and DMM.B

ANNUAL GENERAL MEETING

The Annual General Meeting
of Shareholders will be held
Friday, June 28, 1996
at 10:00 a.m.
The Coast Capri Hotel
1171 Harvey Avenue
Kelowna, BC, Canada
V1Y 6E8

Printed in Canada